

What is ESG investing?

ESG investing involves considering **environmental**, **social** and **governance** factors alongside financial considerations when assessing investment opportunities.

When fund managers (acting on behalf of the investors investing in their funds) are deciding which companies to invest in they may search out and include companies based on their ESG characteristics.

Environmental

Environmental factors refer to how companies are performing in their stewardship of the environment, for example:

- Carbon footprint
- Energy consumption
- Greenhouse gas emissions

Social

Social factors consider how companies manage relationships with employees, suppliers, customers, and the areas where they operate, for example:

- Human rights and social justice
- Working conditions and employee relations
- Health and safety standards

Governance

Governance factors focus on company leadership. For example:

- Board diversity, structure and pay
- Avoidance of bribery and corruption
- Management and culture

ESG investing offers the potential to invest in ways that reflect the values that are important to you through using investment solutions that aim to take related ESG characteristics into account.

ESG investing may be referred to by other terms such as socially responsible investing, sustainable investing, impact investing, or values-based investing.

The development of ESG investing

The United Nations (UN) agenda for sustainable development have been one of the driving forces behind the concept of ESG investing. The **UN sustainable development goals (SDGs)** are 17 high level goals to transform the world by 2030. They cover a broad range of issues such as quality education, decent work and economic growth, climate action, affordable and clean energy and good health and well-being.



These goals are inevitably feeding through to businesses and the investments landscape. Some fund managers refer directly to relevant SDGs as a way of explaining how the companies they invest in contribute to these goals. You can read more about the UN SDGs at www.un.org.

ESG investing – approaches and strategies

There are a range of ESG investment approaches and strategies that fund managers may use within their funds. There is no exhaustive list of ESG investments, a fund manager may use a range or combination of approaches within their fund. Here are some of the most common approaches:

Responsible Ownership / Stewardship	Fund managers use their position as an investor to encourage the companies they invest in to improve their ESG practices – for example by holding meetings with senior management and voting at AGMs.
ESG Integration	Fund managers consider ESG issues as part of their investment research and decision making.
Exclusions	Exclusions prohibit certain investments from a firm, fund or portfolio. Exclusions may be applied on a variety of issues. Examples include: ethical, values-based or religious exclusions, avoiding armaments, tobacco, gambling companies and those with poor social or environmental practices.
Sustainability Focus	Fund managers select and include investments that fulfil certain sustainability criteria and/or deliver on specific and measurable sustainability outcomes.
Impact investing	Investments are made with the intention to generate positive, measurable social and environmental impact alongside a financial return.

Taking ESG preferences into account in our investment recommendations

Before making any investment recommendations to you, we must consider a range of factors, including your personal circumstances, financial goals and objectives, how much risk you are prepared to accept in an investment product and how much of a fall in its value you could withstand.

Where you have expressed a preference for ESG investing we will take your preferences into account when making our recommendations. It may however not always be possible to find a product or investment solution that meets those preferences. For example, providers of ESG funds may cover some areas but not all. Some areas of interest may have limited investment options available.

Your needs and circumstances may mean that certain ESG investment approaches may not be suitable for you.

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